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RUEHIT/AMCONSUL ISTANBUL 2863  
RUCPDOG/DEPT OF COMMERCE WASHDC  
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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 001644

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SUBJECT: LOCAL GAZPROM OFFICIAL DISCUSSES FIRM'S PROSPECTS  
IN TURKMENISTAN

Classified By: Charge Richard Miles, reasons 1.4 (B) and (D).

11. (C) SUMMARY: Despite ongoing discussion of an expanded Caspian gas pipeline to Russia, a local Gazprom official recently suggested that the project's prospects might be dimmed by the current financial crisis. Both political and commercial factors would influence an ultimate decision. Agreement between Gazprom and the Turkmen on the 2009 gas price has not been reached, and the Turkmen would likely resist downward pressure. The 2008 gas delivery of 45 bcm to Russia, while not the maximum level, falls within the range permitted in the purchase agreement. Upstream development of Turkmen gas by Gazprom would be profitable for the company, but would depend on how the Turkmen decide to proceed with development. While the Gazprom official thought there is plenty of Turkmen gas to fill the pipeline to China, he questioned Chinese firms' ability to produce gas under such difficult technical conditions. END SUMMARY.

FINANCING A FACTOR FOR CASPIAN LITTORAL PIPELINE

12. (C) On December 21, poloff met with the Deputy Director of Gazprom's Ashgabat office, Sergey Toropin, to discuss the outlook for Gazprom's activities in Turkmenistan. Toropin acknowledged that Turkmenistan's gas production is currently insufficient to meet its delivery commitments, but suggested that production could increase. Before production would be increased, however, a pipeline network with sufficient capacity would need to be built. At the same time, citing the global financial crisis, Toropin said there might be a need to re-examine the feasibility of some projects, specifically an expanded Caspian Littoral pipeline that would take Turkmen and Kazakh gas north to Gazprom's Central Asia Center ("CAC") network and onwards to Russia. The Caspian pipeline project is the subject of a December 2007 intergovernmental agreement between Turkmenistan, Russia's Oil and Gas Ministry and Kazakhstan, with Gazprom in the role of project implementer. Toropin said that while Gazprom CEO Alexey Miller would make the decision about whether or not the project would be built, taking into consideration the availability of financial resources, ultimately the decision would be made at the government level, and not by Gazprom itself. However, Gazprom would finance the project, probably with loans backed by the Russian government.

13. (C) Concerning the Caspian Littoral pipeline, Toropin confirmed that the current pipeline along that route has a capacity of 7-10 bcm per year. A new pipeline would have an initial capacity of 20 bcm per year. The parties would need to decide whether to rebuild the existing pipeline or build a completely new pipeline, depending on which option would be more profitable. Concerning the gas supply for an expanded pipeline, Toropin said there would need to be an increase of production from existing fields in the Caspian region or else a new source of supply from the Petronas offshore project, which would require a lot more construction to tie-in.

#### 2009 PRICE FOR TURKMEN GAS REMAINS UNDECIDED

14. (C) Toropin described the 25-year gas purchase agreement between Turkmenistan and Russia, signed in 2003, as an intergovernmental agreement. Within the framework of that agreement, Gazprom's export subsidiary Gazpromexport was designated as the implementer for gas purchases. Over the term of the agreement, only the price is renegotiated periodically. The current price is USD 150 per thousand cubic meters, which Toropin said is based on a "universal formula" for an "active" price, although he did not know the particulars of the formula, nor how often the price could be renegotiated. In the past, the Turkmen side had wanted a continuous increase, but Toropin wouldn't speculate about how the current price would be adjusted. He thought the Turkmen would now want a fixed price since applying the pricing formula could result in a lower price given the current

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decline of global energy prices.

#### GAS DELIVERIES FALL SHORT OF MAXIMUM AMOUNT

15. (C) Although the Turkmen have agreed to sell 50 bcm per year to Russia, in reality the amount will be less this year. Last winter was particularly cold, resulting in increased Turkmen domestic demand. Also, the capacity of the CAC network leading from Turkmenistan is partially occupied by the shipment of Uzbek gas. Toropin said the maximum throughput of the CAC pipeline is up to 70 bcm per year, provided there was regular maintenance, repairs and upgrades to the system as was the case during the Soviet period. Currently, the pipeline cannot operate at full capacity, although maintenance is ongoing. Toropin said Turkmen gas sales to Russia in both 2007 and 2008 would be 45 bcm per year. Since Uzbekistan and Kazakhstan also ship gas through the CAC pipeline, Gazprom is in the position to decide which country's gas is shipped. According to the gas purchase agreement, there is a penalty if the Turkmen do not deliver a sufficient quantity of gas to GazpromExport, as well as a take-or-pay provision for Gazprom. As Toropin's work in Turkmenistan is focused on monitoring the quantity and quality of the gas shipped, he said he did not know what the minimum and maximum delivery levels were.

#### TURKMEN GAS TO BULGARIA NEEDS TRANSIT THROUGH RUSSIA

16. (C) Commenting on the announcement, during the Bulgarian President's visit to Ashgabat, that Turkmenistan would sell two bcm per year to Bulgaria, Toropin said he did not understand how they agreed to that since Gazprom would decide the transport question. While from a "purely political" point of view, the announcement "sounded good," it was "nonsense." Bulgaria could reach an intergovernmental agreement with Russia concerning transport, but it would be a complicated process to make such arrangements.

#### GAZPROM PRODUCTION OF TURKMEN GAS WOULD BE PROFITABLE

17. (C) Toropin said Gazprom's prospects for gas production in Turkmenistan were not straightforward. While operating pipelines was profitable, the process of gas exploration and production was both more expensive and more profitable.

Since Russia already has a pipeline in place, it would make sense to also be involved in production, but potential for gas production and refining would involve a huge investment and is a matter to be decided in the future. Whether or not Gazprom could build the needed infrastructure would all depend on the Turkmen side and how they want to proceed with development of their resources. He said Gazprom had both the experience and technology needed to develop new gas deposits in the Amu Darya basin, but that Russia, Turkmenistan and Uzbekistan were still working towards an arrangement. To address the environmental concerns alone would require a big investment.

#### IMPACT OF CHINESE PIPELINE: "WAIT AND SEE"

18. (C) Noting that China had made a big investment in gaining access to Turkmen energy resources, Toropin agreed that the Chinese would generate big competition for Turkmen gas. At the same time, he suggested that we "wait and see" what happens. He said a 20 bcm per year pipeline to China is not so much throughput capacity given the huge gas deposits in Turkmenistan. Also, he pointed out the the gas deposits in question will be difficult to exploit, and that the Chinese are "novices" at production under such conditions. He contrasted the Chinese with the U.S., Norwegian, Russian and other European firms that have the necessary experience and technology. In any event, Toropin thought questions about who and how Turkmen gas deposits will be developed would still be worked over and over before they are finally settled.

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#### GAS STORAGE CAPABILITY MAKES SENSE FOR THE TURKMEN

19. (C) The Turkmen are pursuing a gas storage project, but it is separate from the issue of pipeline construction, according to Toropin. He explained that during the summer when demand for gas was weak gas could be stored for use during the winter. The storage issue was not related to pipeline or shipping questions, simply more profitable for the Turkmen. If Gazprom would not be able to ship all the Turkmen gas due to pipeline capacity constraints the Turkmen lose income. Toropin said the cost of constructing storage facilities would pay for itself in two-three years. Toropin did not know what the Turkmen do with excess gas currently.

110. (C) COMMENT: Three days after the above meeting, Gazprom CEO Miller was in Ashgabat for discussions with Deputy Chairman for Oil and Gas Tachberdi Tagyev, during which they reportedly agreed to the "technical parameters" for the Caspian pipeline. They also agreed that Gazprom would build a facility at the South Yolotan field for the preparation of gas for transport, thus giving Gazprom an inroad at that highly coveted gas deposit. Both aspects suggest that Gazprom is hard at work to enhance its position as a reliable partner for the Turkmen, while at the same time reinforcing Turkmen dependence on Russia as its main gas export option. Nonetheless, as the year draws to a close, no announcement was made about the 2009 gas price, although it certainly had to have been discussed. Perhaps as both sides prepare for President Berdimuhamedov's upcoming visit to Russia, they're saving that issue for agreement at the highest level. END SUMMARY.  
MILES